



NATIONAL AUDIT
OFFICE OF LITHUANIA

PUBLIC AUDIT REPORT

ASSESSMENT OF REGULARITY OF THE 2021 SET OF ACCOUNTS OF THE PENSION ANNUITY FUND

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No FAE-3



The main function of the National Audit Office of Lithuania is to supervise the lawfulness and effectiveness of the management and the use of the State property and execution of the State budget. By providing audit observations and recommendations, the National Audit Office promotes positive and effective public audit impact on public finance management and control system and on public management oriented towards results and public needs. For more information on the activities of the National Audit Office and the results of the public audit, see www.valstybeskontrole.lt.

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Public Audit Report has been submitted to: the Seimas of the Republic of Lithuania, the Government of the Republic of Lithuania, the State Social Insurance Fund Board under the Ministry of Social Security and Labour, and the Ministry of Social Security and Labour.

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INTRODUCTION

Objective and Scope of the Audit

In accordance with the Law on the Accumulation of Pensions and the Law on National Audit Office¹, we have carried out the audit of the regularity of the 2021 set of accounts of the Pension Annuity Fund.

The audit has been performed in accordance with International Standards on Auditing and International Standards of Supreme Audit Institutions. The audit report includes only the matters identified during the audit, and the independent opinion on the Fund's set of annual accounts is presented in the audit opinion. The scope and methods of the audit are described in greater detail in Annex "Audit Scope and Methods" (p.p. 6–7).

Purpose of the Pension Annuity Fund

On 1 July 2020, a new public sector entity, the Pension Annuity Fund, will start paying pension annuities. Since then, the accumulated sum in the 2nd pillar pension fund, if it exceeds EUR 10,000, regardless of the moment when the person became a participant of pension accumulation, is paid only by the payer of pension annuities – the State Social Insurance Fund Board under the Ministry of Social Security and Labour. The resources (funds) of this Fund consist of lump-sum contributions (funds accumulated by participants), income from the investment of the Fund's resources, borrowed funds, and other legally received funds. The resources of the Pension Annuity Fund may be used only for the payment of pension annuity benefits, for the management and administration costs of the Fund, for investment activities, and for making other payments as provided for in the legislation approved by the payer of pension annuities.

The objective of the payer of pension annuities is to ensure that pension annuities are paid to beneficiaries for life, for their maximum benefit, and that the Pension Annuity Fund is managed in a transparent and sustainable manner. The Pension Annuities Board², acting in a collegial capacity, oversees how the payer of pension annuities meets this objective.

The Pension Annuity Fund is accounted for and reported on by the SSIF Board separately from its own accounting as a budgetary institution³. Pursuant to the Law on the Accumulation of Pensions⁴, the budget of the Pension Annuity Fund is approved by the Law on the Approval of the Budget Indicators of the Pension Annuity Fund for the respective year.

¹ Law on the Accumulation of Pensions, Article 35(10)(4) and Law on National Audit Office, Article 8 (2)(4).

² Ibid., Article 35(2).

³ Ibid., Article 35(10)(2) and Article 35(1) (2)(12).

⁴ Ibid., Article 35(10)(1).

The set of annual accounts of the Pension Annuity Fund with the Opinion of the National Audit Office on that set of accounts are published on the website of the payer of pension annuities no later than June 1 of the following accounting year⁵.

⁵ Ibid., Article 35(11)(1).

AUDIT RESULTS

1. THE SET OF ANNUAL ACCOUNTS OF THE PENSION ANNUITY FUND IS CORRECT IN ALL MATERIAL RESPECTS

1. Pension Annuity Fund's set of annual accounts is drawn up in accordance with the Law on Accumulation of Pensions⁶, Law on Public Sector Accountability and the standards of public sector accounting and financial reporting. We have not identified any material misstatements in the Fund's 2021 set of accounts, which are correct in all material respects, but we note that the set does not include, as required by the provisions of the Law on Accumulation of Pensions⁷, information on pension annuity payment objectives and their execution⁸ and does not disclose whether the technical provisions made are adequate⁹.
2. Pursuant to Article 35¹²(1) Law on the Accumulation of Pensions, the administration and management of the Fund's activities are financed by a deduction¹⁰ to finance the management and administration of the pension annuity payment activities and, if this is insufficient, the remainder is covered by borrowed funds. According to the set of accounts, the Fund incurred management and administration costs of EUR 321,540, which were covered by an interest-free loan of EUR 106,100 from the Ministry of Finance in 2021¹¹.
3. We found that the procedure¹² for accounting for the management and administration costs of the Fund does not cover the reimbursement of all the costs incurred by the SSIF Board as the payer of the pension annuities, and we recommended¹³ the SSIF Board to assess all the costs incurred during the audit, and to supplement this procedure. The SSIF Board has planned to implement this recommendation by 30 September 2022¹⁴.

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⁶ Law on the Accumulation of Pensions, Article 35(10)(2).

⁷ Ibid., Article 35(11)(1). The Fund's annual accounts must contain information on the main objectives of the pension annuity payment and their execution, the performance and financial position of the Fund, the adequacy of technical provisions and their coverage by assets.

⁸ The strategic objectives for 2021-2024 and the measures and targets for 2021 have been approved by Order No V-90 of the Director of the Board of the SSIF of 22 February 2021. Information on the objectives of the pension annuity payment and their execution is provided in the 2021 activity report of the SSIF Board.

⁹ The 2021 set of annual accounts only disclose the assumptions for the assessment of the adequacy of technical provisions. The assessment of adequacy is contained in the Chief Actuary's 2021 report.

¹⁰ No more than 3% of the lump-sum contributions is paid into the fund by pension accumulation companies.

¹¹ An interest-free loan of EUR 30,000 was obtained for this purpose in 2020.

¹² Order of the Director of the SSIF Board under the MSSL No V-706 "Description of the Estimation and Compensation Procedure of the Pension Annuity Fund Management and Administration Costs" of 22 December 2020.

¹³ National Audit Office's 21/04/21 Letter No. SD-(120-9.1.1-E-6131)-289.

¹⁴ Letter No. (1.78E)I-4537 of 28 April 2022.

ANNEXES

Public audit reports
Assessment of the Regularity of
the 2021 Set of Accounts of the
Pension Annuity Fund
Annex 1

Scope and Methods of the Audit

The objective of the audit:

- to assess the data of the 2021 set of accounts of the Pension Annuity Fund and to provide an independent opinion;

The audited accounts of 2021:

- account of financial position, performance account, account of changes in net assets, cash flow account, and explanatory note, prepared according to the data of 31 December 2021.

Audit scope limitations:

- We note that the scope of the audit was not limited.

Subsidiaries, controlled or consolidated bodies in operation:

- the Fund has no subsidiaries, controlled or consolidated bodies.

The Audit was performed:

- in accordance with the International Auditing Standards¹⁵, and International Standards of Supreme Audit Institutions¹⁶;
- in order to obtain reasonable assurance that the accounts have no material misstatements. Absolute assurance is not possible due to the inherent limitations of audit and internal control and the fact that we have not tested all (100%) of the economic transactions, economic events and concluded contracts.

Scope and Methods of the Audit

Balances of property and correspondingly funding amounts, liabilities, and net assets at the beginning and end of 2021:

At the beginning of 2021, the balance of assets and, consequently, of financing amounts, liabilities and net assets totalled EUR 3,682.85 thousand, and at the end of the year, it amounted to EUR 15,264.89 thousand.

Income generated and costs incurred in 2021:

¹⁵ International standards for auditing, published by the International Auditing and Assurance Standards Board of the International Federation of Accountants and translated by The Lithuanian Court of Auditors (until 28/02/2017) and The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania (from 01/03/2017), internet access: <https://avnt.lrv.lt/lt/teisine-informacija/teises-aktai/auditas> (accessed on 22/04/2022).

¹⁶ 2000-2899 ISSAIs "Financial Audit Standards", Internet access: <https://www.valstybeskontrole.lt/LT/post/15649/> (accessed on 22/04/2022).

Scope and Methods of the Audit

The Fund received EUR 10,664.62 thousand in pension annuity contribution income and incurred EUR 11,065.57 in operating expenses, of which:

- EUR 10,362.44 thousand due to the change in the value of technical provisions;
- EUR 381.42 thousand due to the pension annuities benefits costs;
- EUR 321.54 thousand accounted for the management and administration costs;
- EUR 0.17 thousand accounted for other costs.

The assessed areas and performed procedures regarding the data of the 2021 set of accounts

Having carried out the audit of the audited entity activities, accounting, and internal control systems, areas in which material risk of distortion exists have been established:

- The key areas of audit have been established: financial fixed assets, received pension annuities contributions, cash, long-term debentures, technical provisions of pension annuities, income from pension annuities contributions, costs of the main activity (due to the change in the value of technical provisions, pension annuities benefits, management and administration services), the result of financial and investment activities. Areas with material risk of distortion have not been identified.

Areas where the effectiveness of control procedures has been established (performed control testing):

- Internal control was not tested.

Areas where substantive audit procedures (detailed tests and/or analytical procedures) were performed:

- Extensive detailed tests have been carried out in the areas of non-current financial assets, current assets and income to obtain affirmations of completeness, authenticity, existence, assessment, and disclosure. In the area of financial fixed assets, it was assessed if the investments were made in accordance with legislation.
- In the areas of liabilities and change in the value of technical provisions (costs), large scale detailed tests were performed to obtain affirmations of completeness, authenticity, existence, assessment, and disclosure. In the areas of liabilities and costs, compliance with the legal provisions on the payment of annuity benefits and the coverage of the costs of administering the Fund was assessed.
- In the area of pension annuities benefits and Fund's activities management and administration costs, large-scale detailed tests were performed to obtain affirmations of completeness, authenticity, existence, assessment, and disclosure.
- In the area of annual accounts, large-scale assessment was performed to obtain affirmations of assessment and disclosure.

The overall assessment of the set of accounts:

Assessed:

- the suitability of the used accounting methods and the validity of the accounting assessments and related management disclosures;
- the overall presentation, structure, and content of the accounts, including disclosures and the fact if justifying transactions and events are presented in these accounts according to the Standards of Public Sector Accounting and Financial Reporting;

Legislation assessed for compliance:

Legislation:

- Law on the Accumulation of Pensions, Sections V, V-1, and VI.
- Law on the adoption of the 2021 Budget Indicators for the Pension Annuity Fund.

Orders of the Director of the Board of the State Social Insurance Fund:

- 03/06/2020 No. V-232 "Methodology for the Estimation of Pension Annuities Amount according to all Types of Pension Annuities".
- 03/06/2020 No. V-235 (13/12/2021 Order No. V-623 version) "Description of the Allocation and Payment Procedure of Pension Annuities".
- 10/06/2020 No. V-257 (31/12/2021 Order No. V-666 version) "Methodology for the Estimation of Technical Provisions of Pension Annuities".
- 24/07/2020 No. V-367 (22/12/2020 Order No. V-706 version) "Description of the Estimation and Compensation Procedure of the Pension Annuity Fund Management and Administration Costs".
- 01/09/2020 No. V-425 (09/12/2020 Order No. V-661 version) "Description of Asset Investment Procedures of the Pension Annuity Fund".
- 01/09/2020 No. V-427 (09/12/2020 Order V-662 version) "Pension Annuity Fund's Investment Policy and Strategy".

Other legislations:

- Resolution No. 03-70 of 28 May 2020 of the Board of the Bank of Lithuania "On the Approval of the Description of the Estimation Requirements of the Pension Annuity Fund's Technical Provisions".

